



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
AUDITOR-CONTROLLER

November 4, 2013

TO: Mitchell H. Katz, M.D., Director
Department of Health Services

FROM: Wendy L. Watanabe *Wendy Watanabe*
Auditor-Controller *for*

SUBJECT: **DEPARTMENT OF HEALTH SERVICES – CONTRACT MANAGEMENT
REVIEW AND CONTRACT MONITORING ASSISTANCE**

Based on the risk assessment of County departments' contracting operations we completed in 2012, we identified the Department of Health Services' (DHS or Department) as one of eight high-risk departments. Additionally, on August 23, 2012, we issued a report that identified a number of problems with DHS' monitoring of a dietary services contractor, and recommended changes to the Department's contract monitoring operations.

At the time we were preparing to perform a review of DHS' contract operations, the Department was working on implementing recommendations from our August 2012 report. Therefore, we limited our review to an evaluation of DHS' contract solicitation process to determine if the Department was in compliance with County contract solicitation guidelines. DHS also requested our assistance to help standardize and improve their contract monitoring operations.

Scope of Review

The purpose of our review was to determine if DHS is in compliance with County contract solicitation guidelines. We also assisted the Department in their efforts to centralize their contract monitoring operations and to develop and integrate contract management best practices into their operations. In addition, we trained 445 DHS managers and staff on contract monitoring concepts such as the purposes and types of monitoring, the contract monitoring process, and documenting and reporting findings. We also performed a department-wide risk assessment, and provided tools and additional assistance that will help DHS develop and implement formal contract monitoring policies and procedures.

Results of Review

Overall, DHS conducted their solicitations in a fair and objective manner. The Department provided adequate public notice for their solicitations, provided sufficient time for vendors to submit their responses, and adequately documented vendor disqualifications. Additionally, evaluation committee members were qualified, used appropriate evaluation criteria and scoring methodologies, and ensured that evaluation scoring worksheets supported the proposals' scores. However, we noted that DHS does not maintain accurate contract information in the electronic Countywide Accounting and Purchasing System (eCAPS) and the Department has not resolved discrepancies identified on their eCAPS error reports.

DHS has taken preliminary steps to strengthen the Department's contract monitoring function by:

- Identifying the appropriate positions and staffing levels for the centralized contract monitoring unit.
- Utilizing the risk assessment tools that we provided to develop an annual comprehensive monitoring plan to identify contractors to monitor and the scope and frequency of the monitoring reviews.
- Developing an ongoing training program for their monitoring staff.

At DHS' request, we are continuing to provide assistance to help improve the Department's contract monitoring function. We plan to perform a review of DHS' contract monitoring operations within six months of the date of this report to evaluate their progress in integrating contract management best practices into their operations.

Details of our contract solicitation compliance review and our ongoing contract monitoring assistance are attached.

Review of Report

We discussed our report with DHS management on May 30, 2013. In the attached response, DHS management agreed with our findings and recommendations and will initiate corrective action to address the recommendations.

We thank DHS management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

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c: Audit Committee

**DEPARTMENT OF HEALTH SERVICES
CONTRACT MANAGEMENT REVIEW
FISCAL YEAR 2012-13**

Background and Scope

Based on the risk assessment of County departments' contracting operations we completed in 2012, we identified the Department of Health Services' (DHS or Department) as one of eight high-risk departments. Additionally, on August 23, 2012, we issued a report that identified a number of problems with DHS' monitoring of a dietary services contractor, and recommended changes to the Department's contract monitoring operations.

The scope of our review was to evaluate DHS' compliance with County contract solicitation guidelines. In addition, we provided DHS with assistance in the Department's efforts to centralize its contract monitoring operations. We also trained DHS contract monitoring managers and staff, performed a risk assessment of the Department's contracts, assisted in developing formal contract monitoring policies and procedures, and evaluated DHS' progress in centralizing their contract monitoring function.

Contract Solicitations

DHS' Contracts and Grants Division is responsible for contract development and procurement, including posting solicitation documents, facilitating proposal evaluations and rankings, and determining contract awards. We completed a review of DHS' compliance with County contract solicitation guidelines, which covered a sample of two Requests for Proposals (RFP) and one Request for Statement of Qualifications that DHS completed during Fiscal Year (FY) 2011-12. We also reviewed DHS' contract information in the electronic Countywide Accounting and Purchasing System (eCAPS) for accuracy and completeness.

Overall, DHS conducted their solicitations in a fair and objective manner. The Department provided adequate public notice for their solicitations, provided sufficient time for vendors to submit their responses, and adequately documented vendor disqualifications. In addition, evaluation committee members were qualified, used appropriate evaluation criteria and scoring methodologies, and evaluation scoring worksheets supported the proposals' scores.

For one of the RFPs we reviewed, the Department did not contact one of the losing proposers' non-County references as required by the Contractor Alert Reporting Database (CARD) Manual. Although this did not affect the outcome of the contract award, since the losing proposer received the full points for that section of the evaluation, DHS should implement the CARD Manual requirements to ensure they evaluate proposers consistently in future solicitations. Our review also disclosed that DHS does not maintain accurate contract information in eCAPS. Specifically, eCAPS

error reports as of August 2013 indicated that the Department had 1,880 expired contracts, 219 contracts that exceeded the maximum obligation amount, 43 contracts without budgets, and two contracts with no end date. DHS needs to investigate items appearing on the eCAPS error reports and resolve discrepancies to ensure accurate contract information is maintained in eCAPS.

Recommendations

Department of Health Services management:

- 1. Ensure that staff consistently contact proposers' non-County references as required by the Contractor Alert Reporting Database Manual.**
- 2. Resolve the discrepancies indicated on eCAPS error reports and ensure contract information in eCAPS is accurate.**

Contract Monitoring

DHS' Centralized Contract Monitoring Division is responsible for conducting the fiscal monitoring for all contracts. However, the Department's program monitoring and invoice processing is decentralized to the individual facility or program staff. In our August 23, 2012 report, we recommended that DHS consider centralizing their program and fiscal contract monitoring operations to enhance management oversight and independence.

During this review, we shared with DHS, best practices used by various County departments and other jurisdictions to effectively monitor their contractors. These best practices include establishing written policies and procedures, developing a comprehensive annual monitoring plan, and providing sufficient training to monitoring staff.

Policies and Procedures

To be effective, a centralized contract monitoring unit needs to develop written policies and procedures to help ensure their monitoring processes are consistent and effective. Specifically, an effective monitoring function needs to:

- Define the organizational structure to help identify roles, responsibilities, and workflow.
- Identify staff qualification standards and training requirements.
- Establish test work and documentation standards.
- Develop protocols for reporting the results of monitoring reviews.

- Establish an audit resolution process.

DHS plans to develop policies and procedures that incorporate the best practices discussed above, as part of their centralization of their contract monitoring function.

Recommendation

- 3. Department of Health Services management develop and implement policies and procedures that include key contract monitoring best practices.**

Comprehensive Monitoring Plan

DHS has over 1,200 contracts valued over \$4.9 billion. Currently, the Department does not have an annual comprehensive monitoring plan that identifies the contractors to monitor and the scope and frequency of the planned monitoring reviews. Due to limited staffing, DHS will need to prioritize the monitoring reviews based on available resources and the risk to the organization. To assist DHS in developing a comprehensive monitoring plan, we performed the following:

- Created an assessment tool, used the tool to identify the level of risk for each DHS program/contract type, and compiled a list of high, medium, and low-risk programs/contract types.
- Worked with DHS management to develop a standardized assessment tool to identify the risk level for each individual contract within the DHS programs/contract types.

The Department plans to use the results of the risk assessments in determining the staffing needs and structure of their new centralized contract monitoring unit, and to develop an annual comprehensive monitoring plan that prioritizes monitoring reviews for high-risk contractors. In addition, DHS management will begin using the standardized assessment tool we developed to assess the risk of each of their contracts and ensure that the frequency and thoroughness of their monitoring is appropriate.

Recommendation

- 4. Department of Health Services management develop an annual comprehensive risk-based monitoring plan.**

Training

Our August 23, 2012 report recommended that DHS ensure their contract monitoring staff has the training necessary to ensure vendors comply with the County contract requirements. At the Department's request, we developed a contract monitoring training class that included key concepts such as the purposes and types of contract

monitoring, the contract monitoring process, documenting and reporting findings, and a CARD orientation. We then conducted 15 training sessions that a total of 445 DHS employees attended.

We plan to provide additional contract monitoring training to DHS that cover other relevant topics, such as report writing and audit interviewing. DHS indicated that they also plan to provide their monitoring staff with hands-on, in-house training on the contracts they will be monitoring.

Recommendation

- 5. Department of Health Services management continue to ensure that contract monitoring staff receive the necessary training to ensure vendors comply with the County contract requirements.**



June 14, 2013

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Fifth District

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: DEPARTMENT OF HEALTH SERVICES
CONTRACT MANAGEMENT REVIEW AND CONTRACT
MONITORING ASSISTANCE

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report on its review of the Department's contract solicitation function and contract monitoring efforts.

The Department of Health Services concurs with the recommendations contained in the report and will initiate corrective actions to address the recommendations.

If you have any questions or require additional information, please contact me or Tobi L. Moree at (213) 240-7901.

Mitchell H. Katz, M.D.
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MHK:tlm:jt/cg

Attachment

c: Gregory C. Polk
Kathy Hanks

*To ensure access to high-quality,
patient-centered, cost-effective
health care to Los Angeles County
residents through direct services at
HHS facilities and through
collaboration with community and
university partners.*



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**COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER
CONTRACT MANAGEMENT REVIEW AND CONTRACT MONITORING
ASSISTANCE**

This is in response to the Auditor-Controller's review of the Department of Health Services' contract management and contract monitoring assistance. The Department of Health Services (DHS) concurs with the Auditor-Controller recommendations and will initiate corrective actions to address the following recommendations:

RECOMMENDATION #1:

Ensure that DHS Contracts and Grants Division staff consistently contact proposers' non-County references as required by the CARD Manual.

DHS Response:

DHS agrees. The Director of Contracts and Grants Division (C&G) scheduled an in-service training on the CARD process when the Auditor-Controller staff shared their finding that the Contractor Alert Reporting Database (CARD) procedures were not appropriately applied in one of the Request for Proposals (RFP) process. That training was conducted on April 12, 2013 by a senior staff person with prior experience implementing the CARD procedures and all C&G staff who handle solicitations attended. Additionally, C&G project plan and evaluation process checklist templates were updated with explicit tasks related to the CARD process and those documents were published to all C&G staff and placed in a shared drive for immediate access. C&G Section Managers monitor their staff's compliance with the CARD process.

RECOMMENDATION #2:

DHS management ensure contract information in eCAPS is accurate.

DHS Response:

DHS agrees. By way of background, when eCAPS commenced, each DHS facility and program office did their own eCAPS data entry which resulted in inconsistencies in how data was characterized and entered. Starting in July 2009, DHS C&G agreed to be responsible for centralized data entry of new contracts to eCAPS starting with one facility and phasing in the other facilities and program offices over time. DHS Finance started coordinating eCAPS clean-up before July 2009, but the clean-up process was (and still is) very slow due to the use of enterprise wide contracts but with contract amounts spread between facility budgets. DHS C&G started with Rancho in July 2009 and by July 2011

had assumed responsibility for all centralized DHS eCAPS data entry with specific processes in place to ensure consistency and accuracy in data entry. However, the historical clean-up is still in process.

RECOMMENDATION #3:

DHS management develop and implement policies and procedures that include key contract monitoring best practices.

DHS Response:

DHS agrees. DHS will review and revise, as appropriate, its current contract monitoring policies and procedures and/or develop new policies and procedures according to contract monitoring best practices to ensure that the Department's formal policies and procedures are relevant and contemporary.

RECOMMENDATION #4:

DHS management develop an annual comprehensive risk-based monitoring plan.

DHS Response:

DHS agrees. DHS Centralized Contract Monitoring (DHS CCM) will develop an annual risk-based contract monitoring plan based upon contract information and risk assessment.

RECOMMENDATION #5:

DHS management continue to ensure that contract monitoring staff receive the necessary training to ensure vendors comply with the County contract requirements.

DHS Response:

DHS agrees and has implemented this recommendation. Between November 2012 and May 2013, 14 training classes were conducted for DHS contract monitoring employees. There was an attendance rate of 83.7% based on the number of registered participants. An additional contract monitoring training class has been scheduled at Olive View-UCLA Medical Center in July 2013.

DHS will continue to work with the Auditor-Controller's Office to provide ongoing classroom training for DHS contract monitoring employees. DHS will also be exploring the possibility of utilizing the DHS Intranet to provide online contract monitoring training materials, current contract monitoring policies, procedures, protocols, and informational bulletins.